

Message Text

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ACTION EB-08

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C O N F I D E N T I A L MADRID 05292

USOECD

E.O. 11652:GDS

TAGS: ECON, EINV, SP

SUBJ: RATIONALIZATION OF SPANISH BASIC STEEL INDUSTRY
EXPECTED TO INCLUDE INCREASED GOVERNMENT PARTICIPATION

REF: MADRID 1765

1. DEVELOPMENT OF A DEFINITIVE RATIONALIZATION PLAN
FOR THE INTEGRATED STEEL INDUSTRY DELAYED BY OTHER
PRESSING PROBLEMS AND BY CABINET RESHUFFLE. HOWEVER,
UNDER NEW MINISTER OF INDUSTRY AND ENERGY, OUTLINE
EMERGING ALONG FOLLOWING LINES. GENERAL THESIS AS EX-
PLAINED BY US STEEL OFFICIAL IS THAT PRIVATE SECTOR
SHARE-HOLDERS SHOULD EXTEND THEMSELVES FIRST IN PRO-
VIDING ADDITIONAL CAPITAL AND CREDITS TO PLACE INDUSTRY
(AHM AND AHV) ON SOUND FOOTING, WITH GOS PROVIDING
BALANCE AS NEEDED.

2. IN CASE OF AHM, THE IDEA IS THAT EXISTING CAPITAL
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WILL BE DRAWN DOWN TO ZERO AGAINST OPERATING LOSSES,
FOLLOWED BY RECAPITALIZATION IN AMOUNT OF PESETA 12,000
MILLION (US\$150 MILLION). HOWEVER, SINCE PRIVATE SECTOR
SHARE-HOLDERS AHV (46.2), US STEEL (15) AND FOURTEEN
SPANISH COMMERCIAL AND SAVINGS BANKS ARE UNWILLING TO
PARTICIPATE IN RECAPITALIZATION, THIS WOULD BE UNDER-
TAKEN BY GOS, PROBABLY THROUGH INI, PROVIDING \$50 MILLION

FOR PURCHASE OF ONE-THIRD OF SHARES AND \$100 IN CREDITS AGAINST DEBTS, NOTABLY TO AHV AND PRIVATE US BANK. REMAINING TWO-THIRDS OF SHARES WOULD BE PURCHASED BY INI IN JANUARY 1979 THROUGH CONVERSION OF CREDITS TO EQUITY. ACTION ON AHM EXPECTED SOON, SINCE WORKERS IN APRIL RECEIVED ONLY HALF-PAY FOR THIRD CONSECUTIVE MONTH. INI TAKE-OVER OF AHM ALSO IMPLIES EARLY TERMINATION OF AHM MANAGEMENT CONTRACT WITH US STEEL.

3. IN THE CASE OF AHV, GOS WOULD PREFER THAT IT REMAIN IN PRIVATE HANDS. HOWEVER, NEW CAPITAL INPUT OF PESETA 5,000 MILLION (US\$62.5 MILLION) IS REQUIRED. THIS IS PRESENTLY UNDER NEGOTIATION BETWEEN MINISTER OF INDUSTRY AND SHARE-HOLDERS COMPRISED OF US STEEL (27) AND LARGE NUMBER OF SMALL SHARE-HOLDERS. PRESIDENT OF US STEEL MADE BRIEF VISIT TO MADRID EARLY THIS WEEK FOR EXCHANGE OF INFORMATION. PRESENT US STEEL POSITION IS NOT RPT NOT TO PARTICIPATE IN NEW CAPITALIZATION BUT RATHER TO ACCEPT RESULTANT DILUTION OF ITS SHARE TO 16.5 IN AHV. HOWEVER THIS IS NEGOTIABLE DEPENDING ESSENTIALLY ON SWEETENING IN OTHER AREAS SUCH AS DOMESTIC PRICING AND SALE OF US STEEL RAW MATERIALS TO THE STEEL INDUSTRY IN SPAIN. OTHER SHARE-HOLDERS RELUCTANT TO PROCEED WITHOUT US STEEL PARTICIPATION. AHV PRESIDENT BOADA SCHEDULED TO MEET WITH US STEEL PRESIDENT IN PITTSBURG MIDDLE OF NEXT WEEK. UNWILLINGNESS OF SHARE-HOLDERS
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TO CONTRIBUTE ADDITIONAL CAPITAL SUGGESTS GOS INVOLVEMENT IN AHV, PRESUMABLY THROUGH PROVISION OF CREDIT, ALTHOUGH EQUITY PARTICIPATION A POSSIBILITY.

4. COMMENT: WHILE A FINAL SOLUTION TO THIS DIFFICULT AND COMPLEX PROBLEM HAS NOT YET BEEN REACHED, THE GOS APPEARS TO BE AWARE AND IS ATTEMPTING TO ACCOMMODATE ALL INTERESTS AND CONCERNS, NOT THE LEAST OF WHICH IS THE EFFECT ON PRIVATE FOREIGN INVESTOR ATTITUDES. EATON

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